

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF WILLOW UTILITIES, INC.)
FOR AUTHORITY TO ACQUIRE AND TO OPERATE)
THE SEWAGE TREATMENT PLANT OWNED BY)
ETON SERVICES, INC., IN JEFFERSON)
COUNTY, KENTUCKY)

and)

CASE NO. 8104

APPLICATION OF WILLOW UTILITIES, INC.)
FOR AN ORDER ADJUSTING THE RATES)
CURRENTLY CHARGED BY ETON)
SERVICES, INC.)

O R D E R

Preface

On December 29, 1980, Willow Utilities, Inc., (Utility) and Eton Services, Inc., (Seller) filed with the Commission a joint application seeking approval of the purchase and sale of the McNeeley Lake Sewer System which is located in Jefferson County, Kentucky. Willow Utilities, Inc., also filed, within the joint application, its proposal to increase sewer service rates presently being charged to the customers of the McNeeley Lake Sewer System.

This case was set for hearing at the Commission's offices in Frankfort, Kentucky, on March 10, 1981, at 1:00 p.m., Eastern Standard Time. The Commission required the Utility to mail to each customer, at least twenty days prior to the date of the hearing, a typewritten or printed notice of the proposed rates

and an estimate of the probable impact upon the customer's utility bill. The Consumer Intervention Division of the Attorney General's Office was permitted to intervene in the matter and participate in the proceedings. At the hearing, certain requests for additional information were made by the Commission's staff. The Utility has responded to these requests for information and the entire matter is now considered to be fully submitted for final determination by this Commission.

TEST PERIOD

The Utility has selected the twelve-month period ending September 30, 1980, as the test year and has submitted tabulations of its actual revenues and expenses for this period including its pro forma adjustments thereto for the Commission's consideration in the determination of a rate adjustment.

VALUATION METHODS

The Commission has found that the Utility's investment records are insufficient in detail to provide the necessary information to determine the net investment or capitalization of the Utility for rate-making purposes. Therefore, the Commission is of the opinion that the operating ratio method should be utilized in this instance.

The formula used in computing operating ratio is as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

REVENUES AND EXPENSES

Utility proposed several adjustments to actual operating

revenues and expenses as reflected in its comparative income statement for the twelve months ended September 30, 1980. The Commission finds these adjustments allowable and has accepted them for rate-making purposes with the following exceptions:

1. Management Fee

The Utility's request for \$1,800 per year, as a management fee, has been reduced to \$1,200. The Commission is of the opinion that \$1,200 is adequate compensation for this type of management service.

2. Sludge Hauling

Item 1.a, of the Utility's response to the Commission's request for additional information made at the conclusion of the hearing, proposes an annual adjustment of \$1,311 for sludge hauling computed on the basis of 12 loads per month at \$109.25 per 4,000 gallon load. The Commission finds the test year cost of \$95.00 per 4,000 gallon load to be known and measurable and it has therefore allowed the following pro forma adjustment to this item of operating expense: $\$95 \times 12 = \$1,140$.

3. Other-Water Analysis (NPDES)

Mr. Carroll Cogan, on cross-examination at the hearing, stated that the Utility is required to perform a laboratory water analysis (NPDES) quarterly, at a cost of \$40.00 per analysis. Therefore the Commission has reduced the test period level of expense of \$225 by \$65 to an adjusted annual level of \$160.

4. Chemicals

It was determined, on cross-examination of Mr. Cogan, that an error of \$100 was made in computing the cost of chemicals;

therefore, the Commission has reduced this expense to \$1,130.

5. Repairs and Maintenance

The Utility has included, as a portion of its repairs and maintenance cost, an invoice from Andriot-Davidson Service Company, Inc., in the amount of \$3,662 which represents the cost of constructing a pier, installation of the pier in the aeration tank and the mounting of the new aerator on the pier. After giving due consideration to all accounting factors pertaining to this matter, the Commission considers the following disposition proper, pursuant to instructions in the Uniform System of Accounts for Sewer Utilities:

Utility's agreed portion of the cost to be capitalized per letter dated March 30, 1981	\$ 1,520
One-half of the remaining labor cost, which pertains to the installation of the new aerator, is to be capitalized	\$ 1,071
The remaining half of the labor cost is to be considered as an extraordinary loss and chargeable to Account No. 182 - Extraordinary Property Losses and amortized over a three year period	\$ 1,071
Total	\$ <u>3,662</u>

6. Agency Collection Fee

The Utility proposed an expense for bill collection in the amount of \$1,875. The Commission has made a downward adjustment of \$173 to this expense to reflect the proper apportionment of the joint service cost of the collection agency (Louisville Water Company) for each bi-monthly billing to customers, which includes the charge for both water and sewer service ($\$1.36 \times 318 \times 6 \times 65.6\% = \$1,702$).

7. Rate Case Expense - Engineering

The Utility, according to testimony entered in the record during the hearing, adjusted the engineering cost pertaining to rate case expense from \$60 to \$50 per hour. Therefore, the Commission considers the following pro forma adjustment allowable:
 $(25 \text{ hours} \times \$50 \text{ per hour}) \div 3 \text{ years} = \$417.$

8. Depreciation Expense

Pro forma operating expenses included an annual depreciation expense adjustment of \$2,500. The Commission, after proper evaluation of all factors in the computation of this expense, considers the following adjustment to be allowable:

<u>Capital Item</u>	<u>Cost</u>	<u>Service Life</u>	<u>Depr. Rate</u>	<u>Expense</u>
Labor Cost on Installation of New Aerator	\$ 1,071	10 years	10%	\$ 107.10
Remaining Sewer Equipment	25,000	20 years	5%	1,250.00
Total				<u>\$1,357.00</u>

9. Extraordinary Property Losses

The remaining labor cost of \$1,071 has been withdrawn from repairs and maintenance expenses by the Commission and considered to be associated with the cost of removing the temporary aerator. As previously discussed, for rate-making purposes, the Commission has amortized this cost over a three-year period ($\$1,071 \div 3 = \357 per year).

10. Income Taxes

The federal and state corporate income tax liability of \$1,127 has been computed on the basis of taxable income of \$4,783 and a composite tax rate of 19.49% as follows: \$5,913 (Gross taxable income) - \$130 (2.2% Jefferson County tax) x 19.49% (federal and state corporate

composite tax rate) = \$1,127.

Therefore, the following tabulation is the Commission's summary of test-year and adjusted annual revenues and expenses:

	<u>Per Books⁽¹⁾ Test Year</u>	<u>Pro Forma⁽¹⁾ Requested</u>	<u>Pro Forma Found Reasonable</u>
<u>Revenues:</u>			
Sewer Operating Revenues	\$ 7,497	\$ 47,675	\$ 41,298
<u>Expenses:</u>			
1. Operation Expenses:			
(a) Management Fee	-0-	1,800	1,200
(b) Sludge Hauling	1,050	1,380	1,140
(c) Utilities - Water	2,175	2,175	2,175
(d) Other - Water Analysis (NPDES)	225	225	160
(e) Utilities - Electric	-0-	8,715	8,715
(f) Chemicals	1,230	1,230	1,130
(g) Health Department Fee	699	700	700
2. Maintenance Expenses:			
(a) Routine Maintenance Fee	4,239	4,848	4,848
(b) Repairs and Maintenance	7,958	7,958	4,296
3. Customer Accounts Expense:			
(a) Agency Collection Fee	222	1,875	1,702
4. Administrative and General Expenses:			
(a) Administrative and General Salaries - Bookkeeping	-0-	1,200	1,200
(b) Office Supplies and Other Expenses:			
Printing and Stationery	-0-	150	150
Telephone	-0-	150	150
HBAL Membership Fee	150	150	150
(c) Outside Services Employed:			
Accounting-Recurring	475	475	475
Legal - Recurring	-0-	250	250
Engineering-Recurring	-0-	150	150
(d) Insurance Expense	-0-	300	300
(e) Transportation Expenses	-0-	150	150
(f) Rents - Office	-0-	600	600
5. Other Expenses:			
(a) Rate Case Expenses:			
Accounting	-0-	100	100
Legal	-0-	500	500
Engineering	-0-	500	417
(b) Depreciation Expense	-0-	2,500	1,357

	<u>Per Books⁽¹⁾</u> <u>Test Year</u>	<u>Pro Forma⁽¹⁾</u> <u>Requested</u>	<u>Pro Forma</u> <u>Found</u> <u>Reasonable</u>
(c) Extraordinary Property Losses	-0-	-0-	357
(d) Taxes Other Than Income Taxes	513	513	513
(e) Income Taxes - Federal, State and Jefferson County 2.2% Tax	-0-	840	1,257
Subtotal	\$ 18,936	\$ 39,434	\$ 34,142
6. Interest on Long-Term Debt	-0-	2,520	2,520
Total Expenses	\$ 18,936	\$ 41,954	\$ 36,662
Net Income (Loss)	\$(11,439)	\$ 5,721	\$ 4,636

Summary

The Commission, after consideration of all evidence of record and being advised, is of the opinion and finds:

1. That by the joint application filed December 29, 1980, Eton Services, Inc., has agreed to sell and Willow Utilities, Inc., has agreed to purchase the McNeeley Lake Sewer System, which is located in Jefferson County, Kentucky, for a purchase price of \$25,000. The mode of payment consists of a five-year promissory note to the Citizens Fidelity Bank and Trust Company in the amount of \$25,000 at an interest rate not to exceed 15%.

2. That the Utility is ready, willing and able to provide for the operation and maintenance of the existing sewage treatment facilities in the area as set forth in the application.

(1) "Per Books" and "Pro Forma Requested" income and expenses were taken from the Applicant's comparative income statement for the twelve-month period ending September 30, 1980.

3. That the proposed sale of the McNeeley Lake Sewer System does not adversely affect the public interest and should be approved.

4. That within the scope of this joint application, the Utility proposes to increase sewer service rates presently being charged to customers of the McNeeley Lake Sewer System.

5. That the Utility should maintain a separate set of accounting records for each sewage treatment facility owned and operated by the Utility. Further, that said records should conform with standard accounting procedures and be maintained in accordance with the Commission's Rules and Regulations.

6. That the Seller should file with the Commission within sixty (60) days of the date of this order the appropriate journal entries effecting the sale of the McNeeley Lake Sewer System.

7. That the Utility should file with the Commission within sixty (60) days of the date of this order the appropriate journal entries effecting the purchase of the McNeeley Lake Sewer System.

8. That, in this instance, the determination of rates and revenue requirements should be based on the operating ratio method.

9. That an operating ratio of approximately .88 results from test-year operations, as adjusted, and it is considered fair, just and reasonable in that it will allow the Utility to pay its operating expenses, service its debt requirements and provide a reasonable surplus.

10. That the rates as prescribed and set forth in Appendix A attached hereto and made a part hereof should produce gross annual revenues of approximately \$41,298 from 318 customers and are the fair, just and reasonable rates to be charged for sewer

service rendered by Willow Utilities, Inc., to customers located in the area presently known as the McNeeley Lake Sewer System, Jefferson County, Kentucky.

11. That the rates proposed by the Utility are unfair, unjust and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.

12. That the Utility has filed with this Commission a valid third-party beneficiary agreement.

Orders in This Matter

The Commission, on the basis of the matters hereinbefore set forth and the evidentiary record in this case:

HEREBY ORDERS that Willow Utilities, Inc., be and is hereby authorized to purchase the McNeeley Lake Sewer System from the Eton Services, Inc., for the sum of \$25,000 as evidenced by the issuance of its five - year promissory note for said amount at an interest rate not to exceed 15%.

IT IS FURTHER ORDERED that Willow Utilities, Inc., shall maintain a separate set of accounting records for each sewage treatment facility that is owned and operated by the Utility. Further, that said records shall conform with standard accounting procedures and be maintained in accordance with the Commission's Rules and Regulations.

IT IS FURTHER ORDERED that Eton Services, Inc., shall file with the Commission within sixty (60) days of the date of this order the appropriate journal entries effecting the sale of the McNeeley Lake Sewer System.

IT IS FURTHER ORDERED that Willow Utilities, Inc., shall file

with the Commission within sixty (60) days of the date of this order the appropriate journal entries effecting the purchase of the McNeeley Lake Sewer System.

IT IS FURTHER ORDERED that the rates prescribed and set forth in Appendix A attached hereto and made a part hereof be and they are hereby fixed as the fair, just and reasonable rates of Willow Utilities, Inc., for providing sewage disposal service to customers located in the area presently known as the McNeeley Lake Sewer System of Jefferson County, Kentucky, to become effective for service rendered on and after the date of this order.

IT IS FURTHER ORDERED that the rates sought by the Utility be and the same are hereby denied.

IT IS FURTHER ORDERED that the Utility shall file with this Commission, within thirty (30) days from the date of this order, its tariff sheets setting forth the rates approved herein. Further, that a copy of the Utility's Rules and Regulations for providing service to its customers shall be filed with said tariff sheets.

Done at Frankfort, Kentucky, this 1st day of May, 1981.

PUBLIC SERVICE COMMISSION

Murderin M. Vohs
Chairman

Katherine Randall
Vice Chairman

Jim Karuga
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8104 DATED MAY 1, 1981

The following rates are prescribed for sewage disposal service rendered to the customers of Willow Utilities, Inc., formerly called Eton Services, Inc., located in Willow Creek subdivision in Jefferson County, Kentucky.

All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this order.

<u>Type of Service Rendered</u>	<u>Monthly Charge</u>
Single-Family Residence	\$ 12.75
Multi-Family Residence	10.10